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AZ CORP COMMISSION  
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BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER  
Chairman

WILLIAM A. MUNDELL  
Commissioner

JEFF HATCH-MILLER  
Commissioner

MIKE GLEASON  
Commissioner

KRISTIN K. MAYES  
Commissioner

Arizona Corporation Commission  
**DOCKETED**

MAR - 8 2004

DOCKETED BY	
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IN THE MATTER OF QWEST  
CORPORATION'S FILING OF  
AMENDED PRICE REGULATION PLAN

Docket No: T-01051B-03-0454

Docket No. T-00000D-00-0672

**WORLDCOM'S RESPONSE TO QWEST CORPORATION'S  
APPLICATION FOR REHEARING AND AN  
IMMEDIATE STAY OF DECISION NO. 66772**

Worldcom, Inc., on behalf of its operating affiliates ("MCI"), responds to Qwest Corporation's ("Qwest") application for rehearing and immediate stay of Decision No. 66772 (the "Decision"). The Decision reasonably and fairly addresses the question of what to do in the interim period between the end of the initial three year term of the Qwest price cap plan (the "Plan") and the time a new pricing plan or rate structure is approved. The Decision should not be modified or stayed.

1 In the Decision, the Arizona Corporation Commission (the "Commission") ordered  
2 Qwest to reduce intrastate switched access services by \$5 million on April 1, 2004. This  
3 reduction is in addition to the three prior \$5 million reductions during the initial term of  
4 the Plan. Qwest objects to this ruling on three grounds: the reduction is not supported by  
5 the language of the initial Plan; the reduction is not supported by the evidence; and the  
6 reduction violates state rate making law because it is not revenue neutral.

7  
8 I. The Plan Language Supports the Access Charge Reduction

9 The issue before the Commission is what to do in the interim with the existing Plan  
10 until a new plan is adopted or the old Plan terminated. While the Plan language is not  
11 crystal clear and, therefore, reasonable minds can differ, the Plan does contain language  
12 that provides the basis for further reduction of access charges. Specifically, the Plan  
13 contemplates that there will be "further reductions in intrastate switched access service  
14 rates during any subsequent term of the price cap plan with the objective of obtaining  
15 parity with interstate switched access rates." Settlement Agreement, Attachment A,  
16 Paragraph 3(d). The Settlement Agreement is Exhibit A to the Decision.

17 The Plan approved by the Commission clearly contemplates additional reductions  
18 in switched access rates after the initial three year term expires on March 30, 2004. If the  
19 plan is continued as authorized in the Decision, that continuation will be a "subsequent  
20 term" and further access charge reductions are appropriate. While an additional \$5 million  
21 reduction in access charges on April 1, 2004 will not reach the goal of achieving parity  
22 with interstate switched access rates, it will be a step in the right direction – a direction  
23 adopted by the Commission when it approved the Plan.

24 Qwest claims the testimonial record during deliberations about the Plan make it  
25 clear that no further access change reductions were contemplated at the end of the initial  
26 term. In support, Qwest provides the affidavit of Mr. Shooshan as Exhibit A to its

1 Rehearing Application. Paragraph 7 of Mr. Shooshan's affidavit refers to the transcript of  
2 the Plan evidentiary hearings. First, Qwest, in the affidavit, quotes AT&T's question:

3 "Q: and there is no determination in this agreement as to  
4 when, if ever, there will be the reduction to intrastate rates; is  
5 that correct"

6 Then, surprisingly, Qwest does not quote Mr. Shooshan's answer given at the  
7 hearing but offers a "paraphrase" of his answer. The affidavit says "my answer was that  
8 additional reductions in intrastate access charges would be considered outside of the initial  
9 Price Cap Plan."

10 That "paraphrase" is misleading. What Mr. Shooshan actually said was:

11 "The 'when' is not specified, but the goal is clearly set  
12 out. That's where we're headed if this agreement is adopted."  
13 (emphasis added). (A copy of this portion of the December 1,  
14 2000 transcript is provided at Attachment A.)

15 In other words, by adopting the Plan, the Commission clearly embarked on a course  
16 to reduce intrastate access rates to interstate rates in the future. The parties intended such  
17 future reductions.

18 In sum, both the language of the Plan and the intention of the parties as expressed  
19 by Mr. Shooshan provide a basis for the April 1, 2004 reduction in switched access  
20 charges.

## 21 II. Substantial Evidence Supports the Access Charge Reduction

22 Qwest argues that there is no evidence to support an access charge reduction and  
23 that state law prohibits the access reduction without an analysis of the financial impact of  
24 the reduction on Qwest's overall return.  
25  
26

1 Contrary to Qwest's position, substantial evidence has been put before the  
2 Commission to justify a switched access reduction. Much of that evidence is from  
3 Qwest's own witnesses in the access case.<sup>1</sup>

4 On July 1, 2002, Qwest filed the testimony of Mr. McIntyre and Mr. Shooshan  
5 (who was testifying for Qwest in the access case as opposed to his testimony for staff in  
6 the 1999 Qwest Rate Case.) Both these witnesses confirmed that Qwest's access charges  
7 are above costs, contain implicit subsidies and should be lowered to be comparable to  
8 interstate rates. Portions of their pre-filed testimony are provided at Attachment B.

9 While Qwest acknowledges that reducing access charges to interstate levels is good  
10 policy, Qwest is concerned about "revenue neutrality." It is the lack of revenue neutrality  
11 that causes Qwest to raise Scates concerns.

12 In the interim, it is easy to create revenue neutrality simply by raising the revenue  
13 cap on Basket 3 services by \$5 million dollars at the same time as access charges are  
14 reduced by \$5 million. This is exactly the "revenue neutral" approach accepted by Qwest  
15 and adopted by the Commission in the Plan. Another perspective is that this interim  
16 reduction is necessitated by the unforeseen emergency resulting from this gap in time  
17 between the end of the initial three year term and the review of the modified plan proposed  
18 by Qwest which will not be completed by April 1, 2004, as the parties had expected.

19 In the longer term, Qwest needs to provide the Commission with sufficient  
20 information, including cost of service data, so that the Commission can permanently  
21 reduce access charges as part of an overall evaluation of Qwest's prices.

22  
23  
24  
25 <sup>1</sup> The access case (T-00000D-00-0672) has been pending since 2000, and substantial  
26 testimony has been filed. The access case has been consolidated with the price cap case.  
Either due to the consolidation or through administrative notice, the access testimony can  
be considered by the Commission in this proceeding.

1           III. Good State Policy Supports the Access Charge Reduction

2           The Commission's interest in the access charge issue goes back several years. A  
3 brief history is instructive.

4           On April 18, 1997, MCI filed a complaint against Qwest (then US WEST)  
5 contending that Qwest's access charges were unlawful, unjust, unreasonable and  
6 discriminatory. MCI maintained that access should be priced at economic cost. The  
7 Commission agreed that access charges were not set at their economic levels, but  
8 concluded that any adjustment must be done as part of an overall review of Qwest's rates.  
9 Thus, MCI's complaint was dismissed by the Commission in Decision No. 60596 (January  
10 14, 1998) with the promise that access charges would be reviewed in Qwest's next rate  
11 case. Significantly, the Commission also held that "... the pricing of access charges  
12 should be taken into consideration as part of any request by US WEST to enter into  
13 Arizona's interLATA toll market."

14           At the August 22, 2000 Open Meeting, former Chairman Kunasek requested an  
15 investigation into whether access charges for Arizona utilities reflect the cost of access. A  
16 docket was opened on September 5, 2000 (Docket No. T-00000D-00-0672), but it was  
17 suspended by a July 8, 2002 Procedural Order.

18           On March 30, 2001, in the Qwest rate case filed after MCI's access complaint was  
19 dismissed, the Commission, as part of a global settlement, approved a minimal access  
20 charge reduction (\$5 million per year) and stated that it was the intention of the  
21 Commission to continue to reduce intrastate access charges to interstate levels. (A.C.C.  
22 Decision No. 63487, March 30, 2001). Despite this minimal reduction, no significant  
23 evaluation of intrastate access charges was undertaken. Instead, the Commission  
24 concluded that access charge issues should be addressed in a generic docket. The  
25 Commission also ordered Staff to open a docket on the related topic of imputation.  
26

1 Imputation is important because Qwest must impute access charges to its own pricing  
2 structure to ensure a competitive long distance market in Arizona. The imputation  
3 investigation mandated in Decision No. 63487 has never been conducted.

4 The access charge issue was raised again at the September 19, 2003 Open Meeting  
5 at which Qwest's 271 approval was granted. Chairman Spitzer, after listening to price  
6 squeeze concerns, requested an expedited investigation of access charges. As a result, the  
7 previously suspended access charge investigation (Docket No. T-00000D-00-0672) was  
8 reactivated.

9 Despite repeated attempts to address access charge issues, no comprehensive,  
10 significant access charge case has been conducted in Arizona. Despite the  
11 Commissioner's direction in Decision 60596 that access charges be evaluated as part of  
12 any request by Qwest to enter the long distance market, Qwest was granted such entry  
13 without an access charge investigation.

14 Because permanent access charge reform must take place in the pending Qwest  
15 renewed price regulation plan case, Qwest's delay in making a sufficiently detailed price  
16 regulation plan proposal and in providing the necessary financial data results in more  
17 delay in access charge reform. This further delay will have a particularly negative impact  
18 on competition because Qwest is now offering long distance services. Qwest may charge  
19 its long distance competitors excessive access charges, substantially above costs, without  
20 imputing these same high access charges to its own long distance service prices.<sup>2</sup> Qwest

21  
22 <sup>2</sup> For example, Qwest is offering and providing interLATA residential long distance  
23 services at 5 cents per minute with a maximum rate of \$20.00 per month (see Attachment  
24 B and Qwest Residential products and packages available in Arizona at  
25 <http://www.qwest.com/residential?npa=&nnx=&line=&qRegResi=regionIn&qInWireLine=&qCustomerState=Arizona>) - a price that appears to be lower than the current switched access rates  
26 charged by Qwest to CLECs. Compare this 5 cent rate with Qwest's Arizona Access Price  
Cap Tariff, Section 6, and more specifically Rates, Terms and conditions for switched  
access that can be found at  
[http://tariffs.uswest.com:8000/docs/TARIFFS/Arizona/AZAPC/az\\_a\\_pc\\_s006p061.pdf#USW-TOC000081](http://tariffs.uswest.com:8000/docs/TARIFFS/Arizona/AZAPC/az_a_pc_s006p061.pdf#USW-TOC000081)

1 should not benefit from this delay, particularly by charging excessive switched access  
2 rates while offering residential customers intra- and interLATA long distance rates of 5  
3 cents per minute.

4 Despite this history and despite being allowed into the intraLATA long distance  
5 market, Qwest has made no proposal to lower access charges since the access charge  
6 docket was reactivated almost six months ago. Obviously, the longer Qwest can delay, the  
7 longer it continues to reap inflated profits by extracting from its long distance competitors  
8 intrastate access charges that far exceed interstate rates and far exceed Qwest's costs to  
9 provide access.

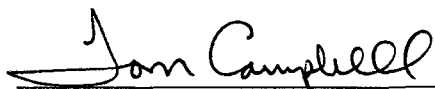
10 Thus, Chairman Spitzer's policy reasons for the April 1, 2004 access charge  
11 reduction make sense. Qwest has no other motivation to act. The \$5 million reduction is a  
12 modest step in the direction the Commission has already decided to go.

13  
14 IV. Conclusion

15 The Decision which reduces access charges by \$5 million is a reasonable response  
16 in this interim period between the initial three year term of the Plan and the adoption of a  
17 new price plan. The reduction is supported by the record and is good policy. Qwest's  
18 Application should be denied.

19 RESPECTFULLY SUBMITTED this 8<sup>th</sup> day March, 2004.

20 LEWIS AND ROCA LLP

21  
22 

23 Thomas H. Campbell  
24 Michael T. Hallam  
25 40 N. Central Avenue  
26 Phoenix, Arizona 85004  
Attorneys for WorldCom, Inc.

1 ORIGINAL and fifteen (15) copies  
2 of the foregoing filed this 8<sup>th</sup> day  
of March, 2004, with:

3 Arizona Corporation Commission  
4 Docket Control – Utilities Division  
5 1200 W. Washington Street  
Phoenix, Arizona 85007

6 COPY of the foregoing hand-delivered  
7 this 8<sup>th</sup> day of March, 2004, to:

8 Jane L. Rodda  
9 Administrative Law Judge  
10 Arizona Corporation Commission  
11 1200 W. Washington Street  
12 Phoenix, Arizona 85007

Maureen Scott, Legal Division  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, Arizona 85007

13 Ernest Johnson, Director  
14 Utilities Division  
15 Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, Arizona 85007

16 COPY of the foregoing mailed this  
17 8<sup>th</sup> day of March, 2004, to:

18 Timothy Berg, Esq.  
19 Fennemore Craig  
3003 N. Central Avenue, Suite 2600  
Phoenix, Arizona 85012

20 Todd Lundy, Esq.  
21 Qwest Law Department  
1801 California Street  
22 Denver, Colorado 80202

23 Joan Burke  
24 Osborn Maledon, P.A.  
2925 N. Central Avenue, Suite 2100  
25 Phoenix, Arizona 85012-2794  
26



LEWIS  
AND  
ROCA  
LLP

L A W Y E R S

1 Michael W. Patten  
2 Roshka, Heyman & DeWulf, PLC  
3 400 E. Van Buren Street, Suite 800  
4 Phoenix, Arizona 85004

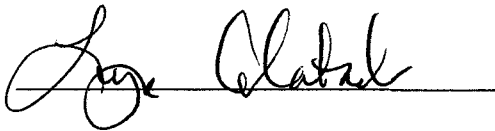
5 Mark A. DiNunzio  
6 Cox Arizona Telecom, LLC  
7 20401 N. 29<sup>th</sup> Avenue  
8 Phoenix, Arizona 85027

9 Scott S. Wakefield, Esq.  
10 Residential Utility Consumer Office  
11 1110 W. Washington Street, Suite 220  
12 Phoenix, Arizona 85007

13 Richard S. Wolters  
14 AT&T Law Department  
15 1875 Lawrence Street, Suite 1503  
16 Denver, Colorado 80202

17 Richard Lee  
18 Snavelly King Majorors O'Connor & Lee, Inc.  
19 1220 L Street N.W., Suite 410  
20 Washington, DC 20005

21 Patrick A. Clisham  
22 AT&T Arizona State Director  
23 320 E. Broadmoor Court  
24 Phoenix, AZ 85022

25  
26  


# Attachment A

## BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION )  
OF U S WEST COMMUNICATIONS, INC., )  
A COLORADO CORPORATION, FOR A )  
HEARING TO DETERMINE THE EARNINGS )  
OF THE COMPANY, THE FAIR VALUE )  
OF THE COMPANY FOR RATEMAKING )  
PURPOSES, TO FIX A JUST AND )  
REASONABLE RATE OF RETURN THEREON )  
AND TO APPROVE RATE SCHEDULES )  
DESIGNED TO DEVELOP SUCH RETURN. )

DOCKET NO.  
T-01051B-99-0105

IN THE MATTER OF U S WEST )  
COMMUNICATIONS, INC. TARIFF )  
FILING FOR APPROVAL OF A \$.25 )  
SURCHARGE FOR A CALL TO A )  
U S WEST 800 SERVICE LINE FROM A )  
PAY TELEPHONE. )

DOCKET NO.  
T-01051B-00-0369

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DEC 4 2000

ARIZONA CORPORATION COMMISSION  
HEARING DIVISION

At: Phoenix, Arizona

Date: December 1, 2000

Filed: December 4, 2000

REPORTERS' TRANSCRIPT OF PROCEEDINGS

VOLUME III  
(Pages 412 through 679)

ARIZONA REPORTING SERVICE, INC.  
Court Reporting  
Suite Three  
2627 North Third Street  
Phoenix, Arizona 85004-1103

Prepared for: By: CECELIA BROOKMAN, RPR  
CCR No. 50154  
CAROLYN T. SULLIVAN, RPR  
Hearing Division CCR No. 50528  
ACC

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(When in red)

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(602) 274-9944  
Phoenix, AZ

1 thoroughly here today, the goal is to reduce switched  
2 access revenues by \$5 million a year for each of three  
3 years. I don't know how else to say that.

4 I think that one of the virtues of the  
5 approach that I recommended initially was that we  
6 didn't specify a dollar value. We simply said, do it  
7 in increments of one-fifth until you get to interstate  
8 parity. But I believe that the language in the  
9 agreement is very clear as to what's required.

10 Q. Well, I'm not confused, but I don't think  
11 that that matters very much for my next question,  
12 which is: Do you know what Qwest's -- do you know  
13 what the revenue -- what revenue reduction would have  
14 been required in switched access under your original  
15 proposal?

16 A. I never went as far as quantifying that in a  
17 dollar amount.

18 Q. Is it fair to say that it would be  
19 substantially in excess of the revenue reduction  
20 provided in this agreement; is that correct?

21 A. Yes, it would be.

22 Q. And there is no determination in this  
23 agreement as to when, if ever, there will be the  
24 reduction to interstate rates; is that correct?

25 A. The "when" is not specified, but the goal is

1 clearly set out. That's where we're headed if this  
2 agreement is adopted.

3 And as I said, if I might just add, that this  
4 plan is not the plan I recommended. It in many ways,  
5 as I've tried to identify, produces benefits that are  
6 constructed differently than I had originally  
7 recommended. And I think that it is a good plan as  
8 currently constructed.

9 MS. STEELE: That's all I have. Thanks.

10 ACALJ RODDA: Does Mr. Cox have anything?  
11

12 CROSS-EXAMINATION  
13

14 Q. (BY MR. PATTEN) Good evening.

15 Let's just start briefly with the notice that  
16 was discussed by Mr. Dixon. I take it your belief is  
17 that notice to competitors of new services or service  
18 packages is not necessary. Was that your testimony?

19 A. No. I said that as a general matter in the  
20 competitive economy, I would be concerned about  
21 competitors basically signaling to competitors what  
22 their new -- what new plans or new services they're  
23 putting in effect or how they're changing prices. I  
24 said that as a general matter.

25 My understanding is that in this state, there

## Attachment B

**BEFORE THE ARIZONA CORPORATION COMMISSION**

IN THE MATTER OF THE	)	
INVESTIGATION OF THE COST OF	)	DOCKET NO. T-00000D-00-0672
TELECOMMUNICATIONS ACCESS	)	

**DIRECT TESTIMONY**

**HARRY M. SHOOSHAN III**

**ON BEHALF OF QWEST CORPORATION**

**JULY 1, 2002**

## EXECUTIVE SUMMARY

Qwest Arizona currently charges substantially different rates for a number of what are functionally the same services: interstate switched access, intrastate switched access, and local termination at the tandem and end office. The disparities are based on the type of traffic being transmitted and the type of carrier seeking interconnection. These price disparities create incentives for arbitrage that, in turn, undermine the existing rate structure. As a result, entry by efficient competitors is undermined, uneconomic entry is encouraged and consumers are put at risk.

The disparity is especially great between Qwest Arizona's interstate and intrastate switched access rates. Switched access rates have been historically high as a mechanism to recover, not only switched access direct costs, but also the non-traffic-sensitive costs of the network. The current Qwest Arizona price regulation plan encompasses a mechanism to improve this situation. Through this provision, Qwest agreed to reduce its intrastate switched access by \$5 million in each of the three years of the plan in return for greater flexibility to price its other services. This will reduce, but not eliminate, the disparity between interstate and intrastate switched access prices. As a result, incentives for arbitrage will still exist and carriers will continue to have the incentive to "disguise" traffic.

Qwest Arizona's proposal in this proceeding to restructure intrastate switched access charges represents another important step in the direction of achieving economically efficient rates and reducing the opportunities for arbitrage. I recommend that the ACC move further toward parity among prices paid by connecting carriers by allowing Qwest Arizona to restructure its rates so that its intrastate switched access rates nearly mirror their interstate counterparts and so that a complimentary ISLC of approximately \$1.15 is implemented at the same time to arrive at a revenue-neutral rate restructuring in Basket 2 of the Qwest Arizona price regulation plan. This rate restructuring will include elimination of the inefficient per-minute CCLC and will remove an important incentive for arbitrage. Continuing progress toward efficient rates is vital to the development of an efficiently competitive market in Arizona, including for residential telephone services.

While additional work is needed to eliminate all opportunities for arbitrage among the various carrier compensation charges, any further changes by the ACC can await action by the Federal Communications Commission following the expiration of the CALLS plan to further harmonize all switched access and other termination rates.



1       seen whether telecommunications regulators will rise to the challenge and take the  
2       further steps necessary to achieve a market-based rate structure. If they do not, the  
3       telecommunications industry may experience serious problems similar to those of  
4       the pre-deregulation railroad and airline industries.

5  
6               **IV. RESTRUCTURING SWITCHED ACCESS RATES IN ARIZONA**

7   **Q14. HOW CAN THE PROBLEMS YOU DESCRIBED ABOVE BE AVOIDED**  
8       **OR MITIGATED IN ARIZONA?**

9   **A14.** Qwest Arizona's access rates must be rationalized if these problems are to be  
10       avoided and the full benefits of local telecommunications competition are to be  
11       realized. As Table 1 above illustrates, first and foremost, intrastate switched  
12       access charges must be lowered. However, if such reductions are not accom-  
13       plished on a revenue-neutral basis, Qwest's ability and incentives to make  
14       infrastructure investments (especially those required to deploy the packet-  
15       switched technology that is demanded by today's growing data and Internet  
16       applications) will be greatly diminished. If this undesirable outcome is to be  
17       averted, regulators must afford Qwest the opportunity to earn compensatory  
18       revenues from other services, *e.g.*, through revenue-neutral rate restructuring. As  
19       intrastate switched access rates are lowered, offsetting revenues could come from  
20       the creation of an ISLC that would also be a rate element in Basket 2 under the

1 Qwest price cap regulation. Indeed, the Arizona constitutional requirement that  
2 the ACC permit Qwest the opportunity to earn a fair rate of return obliges the  
3 ACC to approve a revenue-neutral rate restructuring. To lower switched access  
4 rates without implementing an ISLC simultaneously would violate this provision.

5  
6 **Q15. EARLIER, YOU STATED THAT ARIZONA HAS MADE PROGRESS**  
7 **TOWARD ACHIEVING PARITY BETWEEN INTERSTATE AND**  
8 **INTRASTATE ACCESS. WHAT FURTHER ACTIONS ARE**  
9 **NECESSARY IN ARIZONA?**

10 **A15.** The current Qwest Arizona price regulation plan embodies a reduction in  
11 intrastate switched access rates of \$5 million for each year of the plan. Despite  
12 these substantial reductions, at the end of the plan, Qwest's rates for intrastate and  
13 interstate access will not be at parity.<sup>13</sup> Further, the CCLC rate element remains  
14 in Qwest's intrastate switched access rate structure today. As a result, the  
15 opportunities and incentives for arbitrage that I described earlier will continue to  
16 exist. Moreover, the continued reliance on the CCLC per-minute charges to  
17 recover what are actually per-line costs of the network is inefficient. In my  
18 opinion, the best way to move toward parity as soon as possible and to promote

---

<sup>13</sup> In my initial testimony for Staff in the price regulation proceeding, I had recommended that intrastate switched access rates be reduced to the point of parity with interstate rates over the term of the plan. Concessions made by Qwest in other areas of the final plan approved by the ACC were appropriately deemed more important to having a balanced price regulation plan.

1 economic efficiency is the adoption of an ISLC in conjunction with lowering  
2 Qwest's intrastate switched access rate elements.<sup>14</sup>

3  
4 **Q16. CAN YOU DESCRIBE WHAT EXACTLY WOULD OCCUR IN QWEST'S**  
5 **COST AND RATE STRUCTURE WHEN YOU SPEAK OF A REVENUE-**  
6 **NEUTRAL RATE RESTRUCTURING?**

7 **A16.** Yes. Switched access rates for years have been designed to recover, not only the  
8 direct costs of switched access, but also the non-traffic sensitive ("NTS") costs of  
9 the local network. There are indeed costs behind these rates; NTS costs of the  
10 network in addition to switched access direct costs.<sup>15</sup> Among the switched access  
11 rate elements designed to recover such costs has been the carrier common line  
12 charge ("CCLC"), which Qwest seeks to eliminate in this proceeding. The  
13 switched access revenues have not exceeded their direct cost simply to provide  
14 greater profit to Qwest. The prices in question were developed through the  
15 intricate traditional ratemaking processes of state and federal regulators to meet  
16 public policy objectives, as I described earlier. In this new environment where  
17 many firms can and do compete with Qwest, such inefficient pricing can no longer

---

<sup>14</sup> In this proceeding, Qwest is proposing to mirror its interstate switched access rate elements with the exception of those associated with signalling. The continuation of intrastate signalling charges that Qwest has eliminated in its interstate tariff would remain the only outstanding difference between Qwest's intrastate and interstate switched access service rates.

<sup>15</sup> John Haring and Harry M. Shooshan III, *Cutting the Gordian Knot of Rate Rebalancing*, prepared for the 29<sup>th</sup> Annual Conference of the Institute of Public Utilities, "Reconciling Competition and Regulation," (continued)

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE )  
INVESTIGATION OF THE COST OF ) DOCKET NO. T-00000D-00-0672  
TELECOMMUNICATIONS ACCESS )

DIRECT TESTIMONY

OF

SCOTT A. MCINTYRE

DIRECTOR – PRODUCT AND MARKET ISSUES

QWEST CORPORATION

JULY 1, 2002

1 Q. HAVE YOU PREVIOUSLY TESTIFIED IN ARIZONA OR OTHER  
2 STATES IN QWEST'S TERRITORY?

3 A. Yes. I have testified in Qwest's last rate case (Docket T-01051B-99-0105) and  
4 more recently in support of Qwest's tariff filing introducing a Local Service  
5 Freeze option for customers (Docket T-01051B-02-0073). I have also testified on  
6 several different occasions in Oregon, Washington, Colorado, Nebraska, New  
7 Mexico, Utah, Wyoming, Iowa, and Minnesota.

8

9 **PURPOSE OF TESTIMONY**

10

11 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

12 A. The purpose of my testimony is to explain Qwest's proposal for access reform in  
13 response to the Commission's Procedural Order dated May 21, 2002. Qwest's  
14 intrastate switched access prices in Arizona are substantially higher than  
15 comparable FCC interstate prices and will remain so after the Company has made  
16 the final reduction in switched access prices that was provided for in its price cap  
17 plan.

18

19 In this testimony, I will describe how further switched access restructuring can be  
20 accomplished on a revenue neutral basis by reducing intrastate switched access  
21 close to the interstate level and offsetting the reduction through implementation of a  
22 competitively neutral ISLC for each residential and business line. The confidential  
23 numbers referenced in my testimony are found in my proprietary exhibit, SAM-1.

24

25 **POLICY GOALS SUPPORTING FURTHER SWITCHED ACCESS**

26

**RESTRUCTURE**

27

28 Q. WHY IS FURTHER INTRASTATE SWITCHED ACCESS  
29 RESTRUCTURING NECESSARY?

1 A. Qwest believes that further revenue neutral reductions in intrastate switched access  
2 prices are necessary in order to move closer towards parity with interstate prices.

3 The Price Cap Plan includes language indicating that the eventual goal is to  
4 achieve such parity. Achieving parity reduces regulatory-driven arbitrage and  
5 creates economic pricing that promotes investment and drives sustainable  
6 competition.

7  
8 The current patchwork of intercarrier compensation mechanisms, including  
9 switched access rates, is based on pre-divestiture and pre-Telecommunications Act  
10 regulatory schemes that no longer further the policies of recent law or this  
11 Commission. They reflect and reinforce artificial distinctions among carriers,  
12 customers, and services. They also create opportunities for uneconomical,  
13 irrational, regulation-driven arbitrage. Until we achieve a unified, intercarrier  
14 compensation structure, including switched access, the industry will continue to  
15 misapply investment. When competitors are faced with an underlying rate  
16 structure that drives unsound investments, they either make those investments,  
17 knowing that the rules are subject to change, but hoping that they will not change  
18 significantly, or they will choose not to invest at all. In either case, consumers are  
19 prevented from the benefits of fair and robust competition.

20  
21 Q. WILL CONSUMERS BENEFIT FROM QWEST'S PROPOSED  
22 SWITCHED ACCESS RESTRUCTURE?

1 A. Yes. Since the intrastate toll market is highly competitive, it is reasonable to  
2 assume that toll providers will pass through intrastate switched access reductions  
3 in the form of lower toll rates. Competitive pressures, rather than additional  
4 regulation, should be allowed to drive those reductions to customers. The  
5 reductions could save Arizona customers millions of dollars in toll rates. Longer-  
6 term benefits will come in the form of a more rational and competitively neutral  
7 rate platform. This will allow competition to grow in an environment where  
8 capital investments have a greater chance to benefit the investor. This, in turn, will  
9 encourage more competitive investment. In the current situation, some  
10 investments are based on niche services that may only be short-term arbitrage  
11 opportunities. Other investments may only be viable if regulatory rules stay the  
12 same, while still others may rely on regulatory rules changing in the near future.  
13 This environment puts all investment on shaky ground and consumers pay the  
14 price in the form of limited competition that is not equally available to all  
15 customers. Robust competition requires that archaic regulatory rate platforms be  
16 changed to competitively neutral structures that can be sustained over the long  
17 term.

18  
19 **SUBSIDIES AND SWITCHED ACCESS**  
20

21 **Q. ARE THERE STILL SUBSIDIES IN QWEST'S CURRENT INTRASTATE**  
22 **SWITCHED ACCESS PRICES?**

23 A. Yes, and they fall into two categories. The first is the clearly identifiable subsidy

1 produced by Carrier Common Line (CCL) charges. The CCL charge has no direct  
2 access cost component and therefore represents pure contribution to the business.  
3 This rate element is a mechanism that was established to support the Non-Traffic  
4 Sensitive (NTS) portion of basic exchange service, which is the loop. The other  
5 less obvious form of subsidy is a historical, public policy-based component  
6 designed to keep basic exchange prices low. This public policy component is not  
7 as well defined as the CCL charge, but it is a form of subsidy as well. Subsidies  
8 are certainly debatable issues, however, depending upon how one defines the  
9 factors that determine whether subsidies exist. The applicable cost of providing a  
10 service is certainly one area that has been and will be argued from various  
11 perspectives and without a clearly agreed upon cost base, subsidies can not be  
12 clearly quantified. In any case, the restructuring of intrastate switched access  
13 should be continued, as proposed by Qwest, even if quantification of subsidies or  
14 their very existence is not agreed upon. Too much consideration of subsidies will  
15 only divert attention from the real goal of accomplishing a rational access  
16 restructure that will be sustainable in a fully competitive telecommunication  
17 market. Once access is fully restructured and priced at competitively neutral rates,  
18 the issue of subsidies in switched access prices will become moot.

19  
20 **Q. WHAT DOES THE HISTORY OF SWITCHED ACCESS PRICES HAVE**  
21 **TO DO WITH THE EXISTENCE OF CURRENT SUBSIDIES?**

22 **A.** When switched access rates were first created, with the divestiture of the Bell



1 System, they included more contribution than would have been normal from a  
2 market perspective. Prior to the divestiture of the Bell System, and the  
3 proliferation of competition in the long distance market, long distance prices were  
4 kept high in support of low local service rates for public policy reasons. The  
5 concept of universal service drove this implicit subsidy in toll rates. Toll service  
6 was still considered somewhat of a luxury and it made sense, from a policy  
7 perspective, to keep these rates artificially high to promote the concept of universal  
8 local service. This subsidy was intended to support the Non-Traffic Sensitive  
9 (NTS) portion of local service. The NTS portion of local service is the loop, the  
10 cost of which does not vary with usage. Switched access prices were developed to  
11 keep long distance carriers on equal ground competitively, while maintaining  
12 significant support for local service. The easily identifiable implicit subsidy was  
13 the CCL charge, but maintaining relatively high prices for other switched access  
14 rate elements also supported this concept. The amount of this contribution, above  
15 cost, which is higher than might otherwise be reasonable in a competitive market,  
16 is a matter of public policy. This higher contribution level helped offset low basic  
17 exchange rates.

18  
19 **Q. WHY IS IT IMPORTANT TO KEEP THIS HISTORICAL PERSPECTIVE**  
20 **IN MIND AS WE RESTRUCTURE ACCESS PRICES?**

21 **A.** Because there have been so many changes in the industry. Technology has  
22 changed and this has driven significant cost changes. Prices have changed and

1 pricing philosophies have changed. This means that while the original intent of  
2 high switched access prices might have been to support the NTS costs of local  
3 service, there is no identifiable trail for this hidden support. To deal with  
4 restructuring now, we must understand that there once was the intent to support  
5 NTS costs, even though there is no current formula to determine how much of this  
6 intended support exists in today's environment.

7

8 **Q. IS IT POSSIBLE TO MOVE AHEAD WITH ACCESS REFORM EVEN**  
9 **THOUGH THIS SUBSIDY ISSUE REMAINS VAGUE?**

10 A. Yes. The FCC has done it, and the states should also. There are no disadvantages  
11 to significant revenue neutral reductions in intrastate switched access and there are  
12 several benefits that I will describe in more detail later. There are also no  
13 detriments to a competitively neutral ISLC. On the whole, customers should  
14 experience toll rate reductions that balance out the ISLC and rational competition  
15 for local and toll services will provide additional benefits. The consumer should  
16 be the ultimate winner in all aspects of this proposal. This makes Qwest's  
17 proposal clearly in the public interest, since it is the public that has the most to  
18 gain in the long run.

19

20 **SWITCHED ACCESS RESTRUCTURE**

21

22 **Q. WHAT RESTRUCTURE OF SWITCHED ACCESS PRICES IS QWEST**  
23 **PROPOSING IN THIS PROCEEDING?**

1 A. Qwest proposes to further restructure intrastate switched access on a revenue  
2 neutral basis by reducing intrastate switched access prices closer to the current  
3 interstate levels and offsetting the reduction with a competitively neutral ISLC.  
4 This will eliminate the CCL charge completely and reduce the prices for many  
5 other access rate elements. Current intrastate switched access revenue is  
6 approximately (see Confidential #3). After the next \$5M reduction in April 2003,  
7 the revenue level will be approximately (see Confidential #1). Establishing prices  
8 near interstate levels will reduce intrastate switched access revenues to  
9 approximately (see Confidential #4). This reduction of approximately (see  
10 Confidential #2) should be offset on a revenue neutral basis by the introduction of  
11 an ISLC applied to each residential and business line.

12  
13 **Q. WHY DOES QWEST'S PROPOSAL ONLY "APPROXIMATE" THE FCC**  
14 **PRICE?**

15 A. Qwest's proposal contemplates an intrastate switched access reduction to a level  
16 "near" the current interstate prices, rather than "to" the interstate prices because  
17 the Arizona intrastate switched access tariff structure does not match the interstate  
18 tariff structure at this time. The difference between the structures is based on the  
19 treatment of signaling. Signaling elements are included in switched access prices,  
20 as part of local switching, at the state level, but not at the interstate level because  
21 of an interstate signaling restructure completed in May 2000. In that May 2000  
22 interstate restructure, signaling rate elements were removed on a revenue neutral